NATVERLAL RESEARCH

Satin Creditcare Networks Ltd

BUY

BSE Code	539404
NSE Code	SATIN
Bloomberg Code	SATIN:IN
Current Price	210
Target Price	353
Mcap Rs bn*	10
Mcap US Mn	142
52 wk H/L	525 / 183
Face Value	10
2 wk avg vol (000)	76.541

Financial Snapshot

₹ mn	FY18	FY19E	FY20E
NII	4,879	6,542	8,102
% ch	42.9	50.4	34.1
PBDT	650	3,427	4,205
%ch	(15.7)	(21.9)	427.3
PAT	(27)	1,647	2,231
%ch	(110.8)	(6,232.7)	35.4
BV	221.3	236.3	281.6
EPS	(0.6)	34.0	44.8
P/E	(369.5)	6.2	4.7
P/BV	0.95	0.89	0.75

Shareholding Pattern

Share hold	Sep-17	Jun-18	Sep-18
Promoter	32.9	26.7	26.7
DII	14.3	16.0	17.4
FII	31.5	39.7	39.7
Corporate	8.0	8.3	7.8
Retail	13.3	9.3	8.4

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Liquidity aversion to help strong players gain marketshare

Satin Creditcare Network Ltd (SCNL) posted a good set of numbers in the second quarter on the back of decent growth in loan book and also better management of collections with lower provisions as the ECL model evolves. In addition funding which became a cause of concern for NBFC following IL&FS default is not expected to be a major concern as a large part of the funding required for the current year has been secured. This along with the fact that the banking correspondence (BC) book, assignments and securitization doors still remain open. During H1 SCNL posted a growth of 38% over the previous year in its total AUM although the growth from Q4FY18 to Q2FY19 was lower at 7.6% which will increase in the H2 which is a seasonally better half. The operating profits too have increased by 122% on the back of both loan book growth and keeping costs in check. The profits too saw a good jump in H1 at ₹736mn against a loss however Q2 Profits showed a decline of 37% this due to a write back in Q2 last year which was extremely large following the recovery from demonetization. The management of SCNL has guided for a growth of 35-40% in loans and profits growing to ₹1650mn by the end of the year which is a good change from the loss reported in the previous year.

AUM growth to remain good: The overall loans sanctioned by satin are expected to witness a good growth over the past year with management guiding anywhere from 35-40%. We believe they could grow at 35% given the fact a large chunk of the funding required is in place along with the fact they have good BC tie ups with Indusind bank which is growing in the standalone book and their subsidiary TSL also having good tie ups with DCB Bank, reliance capital and Yes bank which will allow them to grow that book as well. At 30% growth they could reach over ₹6.3bn in loans which will only grow as the microfinance space still has a large untapped market potential both in volumes and value. This apart the housing space and MSME funding space too will allow them to grow at well ahead of 25% plus for the next couple years.

Strong spreads which can be maintained: MFI's like SCNL lend to the weakest sections of society which has its own risk profile however doing it in the form of JLG's helps mitigate some of the risks. The higher risk profile allows them to maintain extremely healthy spreads near 10% where the regulatory body has capped it. The high spreads allow them to absorb the credit costs and still remain profitable. In addition even though cost of funds rise they are able to pass on the increased costs without too much difficulty as the alternative for their borrowers are much worse and the small changes don't change the demand from the borrowers. In effect we believe they would be able to maintain spreads even in this tight liquidity situation.

Change to IND AS has led to large provisions being finished: All NBFC have had to shift to Ind AS provisioning which requires them to provide for losses based on expected credit losses (ECL) and not on actual losses. This has led to an increase in provisions made through the balance sheet in Q1 with ECL at ₹1.8bn at the end of Q2 FY19. This implies almost 75% of the NPA have been provided for of the existing PAR 90 which is at ₹2.27bn. Additionally of the new disbursements made post demonetization the collection efficiency is at 99.5% which implies future losses will be significantly lower. This would mean provisions would continue to be lower and there could also be some more write backs as have been seen in the past from existing losses. With provisions expected to remain at lower levels profitability of SCNL is expected to remain firm going forward. Although we should note an additional provision of almost 1.0bn was taken in the balance sheet if run through P&L profits for the year would be much lower.

Profits to remain strong going forward: As discussed the profitability of SCNL was affected by the provisions and write-offs being done over the past couple years post demonetization. The large spike in NPA’s was on account of demonetization where cash went out of the system which led to collections being hampered, this is now finished and as mentioned new loans collection efficiency is 99.5%. With low NPA’s going forward and large part of provisions and write-offs behind we believe profitability of SCNL will rise to more sustainable levels. The management has guided for a 1.65bn profit for the current financial year and we believe that is achievable given the loans book and spreads as discussed. In addition given the growth opportunity we believe profits will see a decent jump even further next year as credit costs decline further in the next financial year.

Valuations: The stock of SCNL has seen a sharp correction over the past few quarters and is now trading at ₹210 which implies a P/E of 6.2X and 4.7X and a P/BV of 0.89X and 0.75X for FY19E and FY20E respectively. The valuations have taken a knocking due to multiple factors which include the write offs done through the balance sheet which have lowered the book value during H1. In Addition the fear of provisions remaining elevated are there even though we have seen them coming off, we figure the markets will let this corner reduce once the company post another couple of quarters of stable NPA’s and provisions which we expect. Lastly growth numbers from the loan book being questioned as the funding has dried up in the wake of the IL&FS default and worry of NBFC’s as a general issue which has also led to hardening of interest rates. We are taking a slightly more optimistic view of the write-off done in the balance sheet, even though not run through P&L the bulk of pain is done with and we are now able to see more sustainable profit levels. On the growth front we actually see it as a positive as the tight debt markets will allow strong players to capture more market shares and SCNL is the second largest MFI in India with a diverse spread and good business model with a mix of BC, Assignments and securitization. We believe they would be able to grow like mentioned earlier and would also be able to retain margins and grow profitability.

In wake of these factors we believe the stock could once again go back to what we believe is fair valuation of 2.0X BV rolling 1 year forward from a longer term point of view however given the near term negative sentiment on NBFC’s we believe market would find it difficult to give such a value and hence we reduce it to 1.5X for FY19E. Based on this we arrive at a target price of ₹353 which gives us an upside of 68% from the current levels. Hence we retain our BUY recommendation on SCNL. Even at the target price valuations would be reasonable on P/E multiple of 10X and 8X FY19E and FY20E leaving room for further upside.

Financials

Profit & Loss

In Rs million	FY17	FY18	FY19E	FY20E
Interest Income	7,601	9,726	12,865	16,160
% Change	*47.1*	*28.0*	*32.3*	*25.6*
Interest Expense	*4,358*	*4,847*	*6,323*	*8,058*
% Change	*50.3*	*11.2*	*30.4*	*27.4*
Net Interest Income	*3,243*	*4,879*	*6,542*	*8,102*
% Change	*42.9*	*50.4*	*34.1*	*23.8*
Other Income	*414*	*588*	*1,025*	*1,153*
Employee Expenses	1,719	2,205	2,713	3,336
Administration expenses	975	813	1,145	1,422
Write offs	132	1,798	283	291
Operating expenses	2,825	4,817	4,141	5,049
PBDT	832	650	3,427	4,205
Depreciation	61	147	186	215
Provisions and contigencies	380	563	750	625
PBT	378	(72)	2,466	3,330
Total Tax	129	(37)	814	1,099
PAT	249	(34)	1,652	2,231
Minority interest	1	(8)	5	0
Net Profit	*249*	*(27)*	*1,647*	*2,231*

Balance Sheet

In Rs million	FY17	FY18	FY19E	FY20E
Share Capital	371	473	485	498
reserves	6,255	10,415	11,308	13,785
Total Shareholders fund	6,626	10,887	11,793	14,284
Minority interest	23	21	26	26
Total debt	38,641	44,112	59,779	74,939
Non Current Liabilities	273	288	317	348
Current Liabilities	2,214	3,131	3,522	4,299
Total Liabilities	**47,777**	**58,439**	**75,437**	**93,896**
Fixed assets	512	575	469	333
Goodwill	337	339	339	339
Investments	205	2,202	1	1
Loans	32,835	44,436	62,458	78,073
Other Non Current assets	1,632	1,496	1,646	1,810
Deffered tax assets	231	416	448	492
Cash	11,298	8,209	7,820	10,021
Other current assets	727	767	2,256	2,826
Total Assets	**47,777**	**58,439**	**75,437**	**93,896**

Key Ratios

	FY17	FY18	FY19E	FY20E
EPS (Rs)	6.7	(0.6)	34.0	44.8
CEPS (Rs)	4.5	(1.4)	38.5	50.0
Book value (Rs)	171.7	221.3	236.3	281.6
DPS (Rs)	0.5	0.0	1.0	1.0

Valuation Ratios

	FY17	FY18	FY19E	FY20E
PE (x)	31.4	(369.5)	6.2	4.7
Cash PE (x)	46.4	(154.2)	5.5	4.2
Price/book value (x)	1.22	0.95	0.89	0.75
Dividend yield	0.2	0.0	0.5	0.5

Disclaimer

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